08-Aug-2024

NRG Energy, Inc. (NRG)

Q2 2024 Earnings Call

Copyright © 2001-2024 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

Kevin L. Cole
Senior Vice President, Corporate Finance-Treasury & Investor Relations, NRG Energy, Inc.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

Bruce Chung
Executive Vice President & Chief Financial Officer, NRG Energy, Inc.

Robert J. Gaudette
Executive Vice President-NRG Business, NRG Energy, Inc.

Rasesh Patel
President-NRG Consumer, NRG Energy, Inc.

Christopher S. Moser
Senior Vice President & Head-Competitive Markets & Policy, NRG Energy, Inc.

OTHER PARTICIPANTS

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Angie Storozynski
Analyst, Seaport Global Securities LLC

Antoine Aurimond
Analyst, Jefferies

Steve Fleishman
Analyst, Wolfe Research LLC

Neil Kalton
Analyst, Wells Fargo Securities LLC

Durgesh Chopra
Analyst, Evercore ISI

David Arcaro
Analyst, Morgan Stanley & Co. LLC

Copyright © 2001-2024 FactSet CallStreet, LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to the NRG Energy, Inc. Second Quarter 2024 Earnings Call. At this time, all participants are in listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Kevin Cole, Head of Treasury & Investor Relations. Please go ahead.

Kevin L. Cole

Senior Vice President, Corporate Finance-Treasury & Investor Relations, NRG Energy, Inc.

Thank you. Good morning and welcome to NRG Energy's second quarter 2024 earnings call. This morning's call will be 45 minutes in length and is being broadcast live over the phone and via webcast, which can be located in the Investors section of our website at www.nrg.com under Presentations & Webcasts.

Please note that today's discussion may contain forward-looking statements which are based upon assumptions that we believe to be reasonable as of this date. Actual results may differ materially. We urge everyone to review the Safe Harbor in today's presentation as well as the risk factors in our SEC filings. We undertake no obligation to update these statements as a result of future events except as required by law. In addition, we will refer to both GAAP and non-GAAP financial measures. For information regarding our non-GAAP financial measures and reconciliations to the most directly comparable GAAP measures, please refer to today's presentation.

And with that, I'll now turn the call over to Larry Coben, NRG's Chairman and CEO.

Lawrence Stephen Coben

Chair, President & Chief Executive Officer, NRG Energy, Inc.

Thank you, Kevin. Good morning, everyone, and thank you for your interest in NRG. I'm joined this morning by Bruce Chung, our Chief Financial Officer. We also have members of the management team on the call, and they are all available to answer questions.

First, I just want to express how excited I am to be leading NRG as Chairman, President and CEO. I'm grateful for the outpouring of support I've received from the investment community, employees and other stakeholders over the last nine months and again in the last week following the board's announcement of August 1.

We are laser-focused on delivering exceptional shareholder value by meeting the growing and evolving needs of our customers while returning billions of dollars in capital. We believe we have the right strategy and the best team to fix the depressed valuation of our company once and for all.

Let's begin with NRG's strategic positioning. For those new to NRG, we have the largest energy and smart home platform in North America. We're the trusted partner to over 8 million residential customers, offering tailored energy and smart home solutions. We are also the second largest energy and energy services provider as well as the largest natural gas provider to commercial and industrial companies.

Copyright © 2001-2024 FactSet CallStreet, LLC

If there's been one takeaway from today's discussion that you should have is that our business and financial outlook has never been stronger. We are witnessing a structural long-term tightening in power supply and demand, driving a step-change improvement in fundamentals. Customers across our platform are using more of our products and increasingly requesting premium customized experiences, as well as innovative offerings focused on convenience, sustainability and cost.

Our integrated platform enables us to stabilize and increase our near-term earnings while capturing medium to long-term growth opportunities. We generate significant excess cash, well beyond our current business needs, resulting in the financial flexibility to grow earnings while, at the same time, returning substantial capital to our shareholders and maintaining a strong balance sheet. The strength of our business and financial outlook has positioned us to capitalize on what we believe to be the beginning stages of an exceptional time for our industry and an exciting time for our company. I have never been more excited about the opportunities in front of us than I am today.

Let's dive into the key messages on slide 5. Our business performance exceeded expectations in the second quarter and year-to-date. We are reaffirming our financial guidance ranges and trending toward the upper end of that guidance range. Next, electrification trends compounded by GenAI data center and other large load growth continue to materialize. We expect competitive markets, such as ours, to realize outsized benefits from this trend, driven by business-friendly policies, available resources and the ability to save projects quickly.

Additionally, we have made progress on the strategic priorities discussed in our last earnings call. This includes submitting our brownfield development projects to the Texas Energy Fund and continuing to advance with our portfolio of sites. Finally, we continue to fulfill our capital allocation commitments with our share repurchase program underway and line of sight to achieving our balance sheet targets.

Turning to slide 6. We delivered $935 million in adjusted EBITDA in the second quarter, a 14% year-on-year increase. This brings year-to-date adjusted EBITDA to $1.784 billion, up 22% from last year. Following the strong first half, we are reaffirming our financial guidance ranges and, again, trending toward the upper part of that range. All of our businesses are excelling and demonstrating strong performance across the board. Our consumer segment demonstrated strong year-on-year growth. Home energy subscribers increased by 8% at stable margins. Smart home had a 5% increase in subscribers and 7% growth in revenue and delivered industry-leading retention rates and expanded margins. We continue to make substantial progress toward our virtual power plant offering and look forward to sharing more about that at the time of our third quarter earnings call.

On the supply side, we continue to experience significant improvements in the availability and reliability of our generation assets, thanks to the investments we have made in them in recent years. We are well-prepared for the summer and winter seasons across our fleet after successfully completing our spring maintenance outages. This level of preparedness helps ensure we can meet demand and consistently deliver exceptional service to our customers. A shout-out to our incredible team of plant operators as our assets delivered 97% reliability during Hurricane Beryl in July with no storm-induced or caused outages or lost generation.

I'm also happy to report that our cost and growth synergies are on track. Today, we're reaffirming our plan of $550 million in synergies by the end of 2025 and we remain on track to achieve our 15% to 20% free cash flow before growth per share growth target, even as our rising stock price means repurchasing shares at higher prices – much higher prices than projected a year ago. On share repurchases, we completed $176 million of the current buyback program, with $649 million to be completed over the balance of the year. Lastly, we are announcing the sale of Airtron HVAC, which will result in $400 million in net cash proceeds.

Copyright © 2001-2024 FactSet CallStreet, LLC

Turning to slide 7. I'd like to provide you a little additional context on the strong demand outlook we are seeing in Texas. In the first half of the year, Texas experienced over 3% weather-normalized load growth, setting new record peaks in January, April and May. Looking ahead, ERCOT continues to anticipate substantial load growth in the coming years. ERCOT's latest projection indicates that more than 60 gigawatts of growth through 2030 will take place, driven by onshoring, data centers and other large load customers. Notably, many of these new loads are backed by contracts with the transmission and distribution utilities in ERCOT or have been confirmed by an officer of TDU adding credibility to the projected growth.

Within our own portfolio, we continue to advance our 1.5 gigawatts of brownfield natural gas development in Texas. We filed applications for all three projects with the Texas Energy Fund in June. We anticipate the PUCT will announce later this month which projects are advancing to the due diligence phase, which is expected to last four to eight months depending on the quality of the projects and their applications. Following that, loan agreements will be executed. We believe our projects are well-situated for a timely approval, given their shovel-ready nature and the completeness of the applications that we submitted.

Finally, we've received numerous questions about our site portfolio since our first quarter call. Our singularly devoted development team is diligently working to maximize the value of these sites. As a reminder, our portfolio includes 21 sites, encompassing 21,000 acres of land in competitive markets. These sites are ideally suited for new large loads and power plant development, offering co-location opportunities both behind and in front of the meter. To identify the sites best suited for data centers, key factors include access to water for cooling, premium fiber channel access for low latency, and existing grid access and infrastructure for rapid market entry. As you can see, our sites possess these attributes, but also have potential for other large load applications. In the appendix, we provide several paths to value under consideration. I look forward to discussing this more with you as we progress.

With that, let me turn it over to Bruce Chung for the financial review. Bruce?

Bruce Chung

Executive Vice President & Chief Financial Officer, NRG Energy, Inc.

Thank you, Larry. Turning to slide 9, NRG delivered another strong quarter of financial and operational performance with adjusted EBITDA of $935 million, an increase of $116 million over the prior year. Free cash flow before growth was $663 million, exceeding prior year results by $238 million. Each segment of our business performed well, with much of the performance underscored by positive momentum and growing subscriber counts, increased volumes and margin expansion.

Starting with our results in our East/West Services/Other segments, we saw a strong performance, producing $282 million of adjusted EBITDA, a $184 million increase over the prior year. $132 million of the year-over-year increase came from the East segment where an increase in subscriber counts and lower realized retail supply costs were the primary drivers of performance. The remainder of the year-over-year growth was driven by a decrease in realized power supply costs in the West.

Adjusted EBITDA in Texas for the second quarter was $452 million, a slight decline compared to prior year. Texas performance was driven by favorable hedging activity, along with increased volumes and subscriber counts in the region. This favorability was offset by an estimated $40 million due to the impact of last year's STP and Gregory asset sales, as well as $50 million in higher maintenance costs from the extended planned outage program we deployed in the quarter to ensure our plants are well-positioned for this summer's operations and beyond. This marks our third year of enhanced preventative investment to improve reliability and flexibility across our fleet. Our plants have performed well through the year, and we expect them to continue to do so as the summer rolls on.

Copyright © 2001-2024 FactSet CallStreet, LLC

Our smart home business has continued to execute well, growing subscriber count by 5% and service margins by 4% year-over-year and generating $201 million of adjusted EBITDA in the quarter. While that represents a slight decrease from the prior year, it is important to point out the decrease was primarily driven by an expected increase in the amortization of fulfillment expenses, which began impacting EBITDA after we closed on the acquisition of the business. Absent this noncash impact and other nonrecurring adjustments, adjusted EBITDA for the segment would have shown an increase of 6% year-over-year. Key performance indicators for the smart home segment continue to remain strong as the average smart home subscriber interacts with their systems more than 16 times per day, and we see this high level of engagement carried through to our best-in-class retention, which is nearly 90%.

Our free cash flow before growth came in at $663 million, $238 million higher than the prior year and driven by our significant growth in adjusted EBITDA and favorable working capital. We are reaffirming our 2024 guidance of $3.3 billion to $3.55 billion for adjusted EBITDA and $1.825 billion to $2.075 billion for free cash flow before growth. Our strong year-to-date performance, coupled with the investments we have made in our plants, give us confidence that we are trending towards the upper end of guidance. We continue to see growth and momentum in our business platforms, and the continued execution of our diversified supply strategy positions us well through the remainder of the year.

Turning to slide 10 for a current view of our 2024 capital allocation. As you can see, there have been few changes since our first quarter call. We are on track to deliver on nearly $600 million of liability management initiatives and $1.2 billion in return of capital through share repurchases and the common dividend. As I mentioned last time, the strength of our share price performance has made our convertible notes one of the most expensive pieces of paper in our capital structure, and we subsequently seize the opportunity to mitigate that through strategic repurchases as part of our liability management program. We repurchased $343 million or approximately 60% of the original issuance. For the remainder of these notes, we have fully hedged the premium we will pay when the notes are retired.

Turning briefly to share repurchases. We have completed $176 million of the $825 million share repurchase target for 2024 via open market repurchases, bringing us to over 40% of our total $2.7 billion authorization. We see tremendous value in buying our shares and we'll continue to take advantage of our currently depressed stock price through share repurchases.

The only substantial change to our capital available for allocation relates the sale of our Airtron HVAC business for $500 million, which will yield approximately $400 million of net proceeds. We expect the transaction to close before the end of the year. Finally, we now show $441 million of unallocated capital available for allocation in 2024 after taking into account the incremental $400 million of net proceeds from the Airtron transaction. We will evaluate the use of this unallocated capital as we move into the latter part of the year and after closing of the Airtron sale.

With that, I will turn it back to you, Larry.

Lawrence Stephen Coben

Chair, President & Chief Executive Officer, NRG Energy, Inc.

Thank you, Bruce. On slide 12, I'd like to share a few closing thoughts on our 2024 priorities and expectations. During the quarter, we've made significant progress on our strategic initiatives, and I'm confident we have the right platform and strategy to deliver on our commitments to both our customers and our shareholders. As CEO, I'm deeply committed to driving NRG forward to create significant additional shareholder value. We are seeing a

Copyright © 2001-2024 FactSet CallStreet, LLC

long-term step-change improvement in fundamentals across our platform. You can expect a continued heightened focus on operational excellence, prudent growth, and being good stewards of you, our investors' capital. I have never been more excited about the potential of our company than I am today.

Thank you for your time and continued interest in NRG. Operator, we're now ready to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Shar Pourreza from Guggenheim. Please go ahead.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Hey guys. Good morning.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Good morning, Shar.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Morning. Morning. Larry, I know, since we last spoke, we've seen something like 40 gigs to 60 gigs get in line for the Energy Fund. Do you think the state could do a second fund if this one helps meet the demand? Do you think this means the curves could revert to backwardation and could you get involved with more generation, assuming an expanded program next year, so do you have more bandwidth? Thanks.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Is that one question, Shar or three, but all great questions. And look, this state has talked about, I think you probably saw the governor and the lieutenant governor talk about adding a second tranche to the TEF. And I think we'll then see what happens and what the availability is. I think the bigger question, Shar, is, first of all, how much of these are real and we don't know yet. We know that ours are shovel-ready. But if you look at people who've applied for transmission studies and the like, it's an awful lot less than 40 gigs. I think it's about 12 gigs to be exact. And so, there's a long way to go before a lot of those projects become real and ready to go. Some of them, I'm sure, will, but many will not. So I don't see the curve – while short term we've seen some fluctuation in curves, I don't see what we've seen from the TEF filings to have a major impact on what the long-term market is going to look like. I'm sorry. There was a second half to your question, Shar, I think.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Just assuming like you see an expanded program, do you guys have like kind of bandwidth to do additional generation?

Copyright © 2001-2024 FactSet CallStreet, LLC

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Absolutely, we do if our customers and clients continue to need it and it's optimal for our portfolio strategy. Though, remember, as we've talked about before, the lead times for development primarily because of turbines and other equipment is several years. So, if you don't have a place in the turbine queue today, there is no way you're getting a new project online before 2030 at the earliest.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Got it. Perfect. And then just lastly, Larry, just on transitioning to EPS, I mean, I know I asked you this on the last call, but has your thoughts evolved around just maybe changing disclosures and guidance a little bit?

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

My thoughts have evolved, but I'll let Bruce expand on how my thoughts have evolved.

Bruce Chung
Executive Vice President & Chief Financial Officer, NRG Energy, Inc.

A

Shar, I guess, in short, Larry's thoughts have evolved such that there hasn't been no change in terms of what we're thinking about. I think what we had indicated last time is that we are working towards making that transition. We see our third quarter earnings as being the optimal time to be able to do that, and that's what we're currently working towards.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Okay. That's perfect color. Thanks. And Larry, big congrats. I know a couple quarters ago, I highlighted that we didn't want you to leave and just stay as the CEO. So, we're glad the board listened. Thanks, guys.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Well, Shar, [ph] when things are taken up (00:22:10) like a rocket ship, you want to wait till you get to the stars before you get off.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

That's right. Congrats, guys.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Thanks, Shar.

Operator: Thank you. One moment for our next question. Our next question comes from Angie Storozynski from Seaport. Please go ahead.

Copyright © 2001-2024 FactSet CallStreet, LLC

Angie Storozynski
Analyst, Seaport Global Securities LLC

Q

Thank you. So, maybe – I mean, we're all trying to be as excited as you are, Larry, about the prospect of power markets. I mean, clearly, the curves disagree. And I'm just wondering if you can explain to us why do you think we've had this sharp pullback in Texas power curves, given the load up outlook you see and we see.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Sure. Good morning, Angie. I'm going to let Rob kind of take you through that because it's something we talk about a lot. But Rob, maybe?

Robert J. Gaudette
Executive Vice President-NRG Business, NRG Energy, Inc.

A

Yeah. So, Angie, obviously, we've seen the same moves and curves that you have. You know as well as I do that to start with, the long-term curve gets impacted by the noise of whatever is going on in the front end of the market. We've had a warm but not very pricey summer, and that's kind of impacted things out the curve. What I would tell you is as we look at these curves, regardless of whether or not you see a bunch of demand come into ERCOT or not, the back end of the curve actually looks like a place where we would be buyers, right. So, 2027 and 2028 summers look cheap. The market itself is constructive or would be constructive. And we think these are right levels for us to step in because we think they're undervaluing what the curve looks like and that's before you add demand. So, I'm pretty bullish on what the market looks like. We feel very strongly about where our portfolio is and we think that our retail business will continue to churn out the earnings that it's done over time. So I'm not very concerned about that curve.

Angie Storozynski
Analyst, Seaport Global Securities LLC

Q

Speaking about retail business, if you could talk to us about what's happening in New England, any potential reviews to the retail electric market and how that could impact your business?

Rasesh Patel
President-NRG Consumer, NRG Energy, Inc.

A

Good morning, Angie. This is Rasesh. To put the context of what's happening in the Northeast, our retail business overall performed really – delivered a very strong quarter, right, 8% subscriber growth, double-digit growth in volume, and strong margin performance. In the Northeast, there are a couple of things going on that we watch very carefully: the regulatory environment and some of the changes in the specific states. As an example, Massachusetts ended up not making any changes. In Maryland, where we have seen some changes as a result of SD1 that's a very, very small part of our overall earnings stream. And so, the impact of that will be negligible to our results. But we watch the environment very closely.

Angie Storozynski
Analyst, Seaport Global Securities LLC

Q

Okay. And then back to the other generation assets. So, I mean, this whole discussion about new build and the need to actually supply additional generation capacity, I'm just wondering, I mean, those are assets with four-year lives and you guys are making decisions based on two to three-year visibility into the profitability of these assets. So, one is how you approach the new builds, given that previous cycles were very painful for IPPs? And two, I mean, is there a way to basically maybe pursue new builds through long-term contracts as opposed to a truly

Copyright © 2001-2024 FactSet CallStreet, LLC

merchant new build? I mean, if the demand is truly there, I mean, one could argue that the demand should be comfortable with signing PPAs to support new build as opposed to just truly merchant assets, both actually in ERCOT and PJM?

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Angie, I'm going to let Rob expand on that. But remember that we have the ability to contract and use all of the power. This isn't a merchant build for us. We have the ability to cross it to ourselves or utilize it ourselves. And so, we're not doing speculative merchant builds. That's not the business that we're in. This is part of the supply stack that Rob and team are really crucially putting together to meet all of our customers' needs going forward. But, I don't know, Rob, do you want to...?

Robert J. Gaudette
Executive Vice President-NRG Business, NRG Energy, Inc.

A

Larry covered it. But this is for our portfolio, like these assets were designed, built and planned to support the retail portfolio regardless of what we see kind of long term. We have a long-term consumer-facing business and we support that.

Angie Storozynski
Analyst, Seaport Global Securities LLC

Q

And nothing about potential long-term contracts? I'm clearly fishing for some comments about those brownfield sites as the monetization of those could come through new build backed by PPAs.

Robert J. Gaudette
Executive Vice President-NRG Business, NRG Energy, Inc.

A

So, Angie, as we consider the sites and the strategy that we do with the sites, right, so as we've disclosed before, two-thirds of those at least are up in PJM where we don't play with generation quite as much as we do down in Texas. All of the answers that Larry and I just gave were in reference to the three new build projects that are on the way. When I think about the sites themselves, if we have an opportunity to build generation on one of those sites and it's for a customer, then we obviously will be thinking about PPAs and different structures to support the capital for those.

Angie Storozynski
Analyst, Seaport Global Securities LLC

Q

Okay. Thank you.

Robert J. Gaudette
Executive Vice President-NRG Business, NRG Energy, Inc.

A

Sure.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Thanks, Angie.

Operator: Thank you. One moment for our next question. Our next question comes from Antoine Aurimond from Jefferies. Please go ahead.

Copyright © 2001-2024 FactSet CallStreet, LLC

Antoine Aurimond
Analyst, Jefferies

Q

Hey guys. Hope you're doing well. Congrats on the results.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Thank you.

Antoine Aurimond
Analyst, Jefferies

Q

And Larry, congrats on the permanent appointment. I guess, on that note, just more broadly taking a step back, how do you think about just the strategic trajectory of the company under your new leadership, right? So, over the past years, NRG [ph] deemphasized (00:28:36) physical generation, asset-light strategy? Do you think that's still the best positioning in the current market conditions and any other strategic shifts we should be considering?

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

I mean, Antoine, I think our strategy isn't changing, but I've never really liked the description asset-light. I've always considered it to be supply optimal. I mean, a good mix of our own generation and other instruments or tolls in order to be able to do that, and that's continuing. One of the reasons we would like to have more iron than we did a year or two ago is because our customers and clients are demanding more electricity. And so, as we construct the appropriate supply portfolio or supply stack up, as in we optimize that, having more hard metal in the ground is a good thing for us. And so, we're doing that. But we're also going to have more of the other types of instruments that we use as well because, as you can see from this presentation, and I know you follow the industry, so you don't need me to tell you, the growth in power demand is continuing and we need to be in a position to meet our clients' needs to do that.

Antoine Aurimond
Analyst, Jefferies

Q

Yeah. That makes sense. And then, I guess, on the data center opportunity, can you maybe comment on status of any discussions you may have with data center providers, type of contracts that you may be contemplating? How advanced you are in negotiation process and how should we think about sort of timeline potential announcements?

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Look, Antoine, one of the things we did was we were getting so many inbounds that we just kind of pulled back for a strategic review of it all. And you can see the kinds of things we're contemplating on that slide in the appendix [indiscernible] (00:30:25) is it 18 or...

Bruce Chung
Executive Vice President & Chief Financial Officer, NRG Energy, Inc.

A

21.

Copyright © 2001-2024 FactSet CallStreet, LLC

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

21. Sorry. And I think as we land on a strategy, we're obviously going to share that with you, and I'm sure that will be sometime probably before the end of the year. But we were getting lots of people throwing us bids for our sites and we're like, well, we know they think we're just a bunch of power guys who don't know anything about data center. So, if that's what they're bidding us, we really need to look at this because it means there's a lot more value in there than the bids that we're receiving. So, can't really comment too much more on it now, but look forward to sharing more with you as we have it.

Antoine Aurimond
Analyst, Jefferies

Q

Fair enough. And then, lastly, on the $400 million of net proceeds from HVAC divestiture, I guess, somewhat unexpected. Where do you expect to allocate that extra cash?

Bruce Chung
Executive Vice President & Chief Financial Officer, NRG Energy, Inc.

A

I'm sorry. Can you just repeat that last part, Antoine?

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

[indiscernible] (00:31:19)

Bruce Chung
Executive Vice President & Chief Financial Officer, NRG Energy, Inc.

A

Oh, yeah. So, look, yeah, from an allocation standpoint, we'll certainly provide more visibility around the allocation once we close and we get the proceeds in place. But you should expect that we'll remain consistent with our capital allocation principles.

Antoine Aurimond
Analyst, Jefferies

Q

Okay. Great. Thank you so much, guys. Talk to you soon.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Thank you.

Operator: Thank you. One moment for our next question. Our next question comes from Steve Fleishman from Wolfe Research. Please go ahead.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Hey good morning. And congrats, Larry.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Copyright © 2001-2024 FactSet CallStreet, LLC

Thank you, Steve. Appreciate it. Good morning.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Yeah. So, just a couple kind of nearer-term questions. First, how should we think about if we do end up having a kind of a milder lower-priced summer in Texas? You've done a lot to kind of make sure you are ready for a high-priced hot summer. Just protection from the opposite. And I assume that's kind of embedded in, synced to the upper end, but just how should we think about that?

Robert J. Gaudette
Executive Vice President-NRG Business, NRG Energy, Inc.

A

Hey Steve. It's Rob. We don't talk about it often, but we also do manage to the downside. The great thing about our portfolio is that we have those assets that we can turn down in markets that aren't constructive, like you've seen for the last two quarters. As far as the way we look forward into the year, we contemplate both up and down scenarios and where we feel we're going to land on guidance.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Okay. And then also just kind of more – we had this PJM auction outcome. Just how should we think about that capacity price flow through the retail business? I don't know how much you've already contracted or it's just not enough of a scale to matter much.

Robert J. Gaudette
Executive Vice President-NRG Business, NRG Energy, Inc.

A

Yeah. So, the BRA print for this last auction is indicative of kind of the supply/demand structure that we kind of see across the country. So, it's going to provide additional dollars towards generation. We don't have a very large portfolio in PJM, so it is what it is. On the C&I and retail sides, think about our consumer business is very short term, so don't expect a lot of impact there. And then on the C&I side, we contract with these guys. And depending on what changes in the markets, we can use change in law depending on what happens if we chose. But as we look at the impacts to the book on the retail side, it's de minimis, Steve. It's nothing that I would even talk about.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

Okay. Thank you. And then just – sorry to go back to Texas new build, but – so, obviously, the TEF has the low cost loans and performance bonuses and the like, but then you do have to kind of have a market price for return on equity. So, just, I mean, is your messaging that basically, hey, this works for us at any forward curve and just how should we think about kind of protecting equity?

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

I know you don't mean any forward curves, Steve.

Steve Fleishman
Analyst, Wolfe Research LLC

Q

I don't, but I'm just – it is...

Copyright © 2001-2024 FactSet CallStreet, LLC

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.
A

No. Look...

Steve Fleishman
Analyst, Wolfe Research LLC
Q

I'm just trying to understand the thought process on.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.
A

If we actually believed that a depressed curve was reality that would – a depressed curve from here was reality that would obviously impact our decision. But as Rob discussed earlier, what we're really seeing in terms of increased demand somewhat belies the short-term blip in the curve. But we look at that all the time. There is a place where we wouldn't do the project. I don't think – we're not there today.

Robert J. Gaudette
Executive Vice President-NRG Business, NRG Energy, Inc.
A

Steve, the one thing I would add to the math or as you think about like the value of these assets, flexible gas generation is a function of both power price, but it's also a function of volatility, right. And so, the volatility curves, which are not very transparent, you can't see them by looking in the megawatt daily, those are still up. And so, the value of these projects as something that can move around with our load continues to support us developing them and putting them into the portfolio.

Steve Fleishman
Analyst, Wolfe Research LLC
Q

Got it. That's helpful. Then one last quick one just on the Q3 disclosures. You talked about the earnings and PPPs. Just the site, the 21 sites, do you think we'll get some update on kind of the Q3 call or is that more kind of late year or next year? Like, what timeline on that?

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.
A

We're pushing to do that, but it's a slow and iterative process a bit, Steve. So, I'm sure we'll have some updates. It may not be as complete a one as you all would like. That may have to wait till the first quarter next year or some conference in between. But we are working expeditiously, but it's more important that we get it right than to do it fast.

Steve Fleishman
Analyst, Wolfe Research LLC
Q

Understood. Thank you very much.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.
A

Thanks, Steve.

Copyright © 2001-2024 FactSet CallStreet, LLC

Operator: Thank you. One moment for our next question. Our next question comes from Neil Kalton from Wells Fargo. Please go ahead.

Neil Kalton
Analyst, Wells Fargo Securities LLC

Q

Hi guys. Just a quick question on the economic outlook. How do you think about – so we've seen a softening in the consumer side. Like, how do you think about the impacts to your business? Thinking both the home security business, retail energy as well, are you seeing any evidence that the consumer is stepping back, weakness, et cetera?

Rasesh Patel
President-NRG Consumer, NRG Energy, Inc.

A

Hey Neil. This is Rasesh. Good morning. We delivered a really strong quarter with 5% year-over-year subscriber growth, 7% revenue growth for the smart home business. And that's sort of – think of that as that's in an environment where we have high interest rates and a slowdown in housing activity. As that normalizes, we would expect that to potentially deliver a tailwind to the business. And I think it's largely a function of the fact that we've had a business that has a very high-quality customer base with an average FICO score of greater than 700. And so, you saw we posted near all-time record results for retention – customer retention, which is almost at 90% on an annualized basis. And we're still largely in an underpenetrated market. And so, we see opportunities to not only continue to grow the customer base at the mid-single-digit rate, but also grow the number of devices and services we provide to the customer within the home. And so, we feel really good about our position and with the potential for a tailwind if rates normalize and housing activity picks up.

Neil Kalton
Analyst, Wells Fargo Securities LLC

Q

Got it. Thank you. Very helpful.

Operator: Thank you. One moment for our last question. Our last question comes from Durgesh Chopra from Evercore ISI. Please go ahead.

Durgesh Chopra
Analyst, Evercore ISI

Q

Sure. Thank you. Larry, congrats. I've got two...

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Thanks, Durgesh. Appreciate it.

Durgesh Chopra
Analyst, Evercore ISI

Q

...questions – sure thing. Two questions. First, just for housekeeping. August 29, will we get a list of projects? Will that be formally announced or how will we know which ones kind of made it to the second round of due diligence by the PUCT?

Christopher S. Moser
Senior Vice President & Head-Competitive Markets & Policy, NRG Energy, Inc.

A

Copyright © 2001-2024 FactSet CallStreet, LLC

Hey. This is Chris. Yeah. What we've been led to believe is that the PUCT will have either an order or a draft order, which would list the assets, the projects that are moving forward towards due diligence. And that has been targeted for the August 29th meeting.

Durgesh Chopra
Analyst, Evercore ISI

Q

Okay. Perfect. Thank you. And then just, Larry, back to you. As you take the permanent role, obviously, there was this transaction announced here. Are there other noncore assets that we could potentially see being liquidated for cash proceeds back into the core portion of the company? How are you thinking through that?

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

A

Look, I mean, we always look to optimize everything we own, Durgesh. There's nothing on the horizon that I see that would be divestable. But sometimes people walk in the door with very attractive offers for things that we own, and we would be silly not to take a look at those, especially given we have a broad and amazing range of opportunities, number one, in which to invest capital; and number two, we have a very undervalued stock in which to invest capital as well. So, when we look at those two things that we can make a transaction that makes sense, we'll obviously do that. I don't see anything on the horizon today. But if the opportunity arises, we will certainly look at it hard and try to take advantage of it.

Durgesh Chopra
Analyst, Evercore ISI

Q

Understood. Thanks for squeezing me in here. Thank you.

Operator: Thank you. We have one last question. The last question comes from David Arcaro from Morgan Stanley. Please go ahead.

David Arcaro
Analyst, Morgan Stanley & Co. LLC

Q

Hey thanks so much. The last last question here. Hey. I was just curious on the PJM market, just reflecting on the capacity print that we just saw. Is there an opportunity for you to look at new build there, like this new build economics work at this point and do you have any opportunities to look at that market in terms of power plant expansion?

Robert J. Gaudette
Executive Vice President-NRG Business, NRG Energy, Inc.

A

Hey, it's Rob. So, the print is constructive as it comes to actually highlighting the supply/demand picture in the market. So I think that's a positive. We have new build sites which, regardless – or we have sites, regardless if you new build them or not, that print is definitely supportive in the overall value as we think about them from a development perspective, whether that's for load or for generation. The one thing I would tell you, David, is that one print isn't going to get a bunch of generation running into the market. So, I wouldn't expect to see a whole bunch of people applying to build generation based on one PJM print. But we do have another mark in December, which I expect would be supportive. And so, the supply dynamics in PJM aren't going to improve any time soon. But I believe that ultimately competitive energy players are rational and will build when it makes sense.

Copyright © 2001-2024 FactSet CallStreet, LLC

David Arcaro
Analyst, Morgan Stanley & Co. LLC
Q

That's helpful. Thanks. And just maybe expanding on that a little bit, do you have a sense as to when new gas plants could realistically get built in the PJM market, given the supply chain challenges that you mentioned in your outlook for energy prices, too, in the context to that?

Robert J. Gaudette
Executive Vice President-NRG Business, NRG Energy, Inc.
A

So, there's two challenges in PJM. One is PJM specific, and that's the interconnection queue, right. It's very deep and very slow. And so, it's probably frustrating a lot of people. The second piece is the one that is a global issue, which Larry alluded to earlier, which is if you want to build a power plant today and you're not in the queue, you're not going to get anything on the ground before 2030. So, demand is coming faster than that supply window, so I expect tight markets, both from a capacity and an energy perspective over the next several years.

David Arcaro
Analyst, Morgan Stanley & Co. LLC
Q

Okay. Great. Very helpful. Thanks for the color. And congratulations, Larry.

Robert J. Gaudette
Executive Vice President-NRG Business, NRG Energy, Inc.
A

Thank you, David. Appreciate it.

Operator: Thank you. I am showing no further questions at this time. I will turn it back over to Larry Coben for closing remarks.

Lawrence Stephen Coben
Chair, President & Chief Executive Officer, NRG Energy, Inc.

Thank you, all, for being on the call and for your interest in NRG and, on a more personal note, for all the kind words and congratulations on my appointment. I'm here and we're all here because we are super excited about the future of NRG. I think you all know that I've been here for 20 years and I've never been more excited or more optimistic about the prospects. So I hope you'll stick with us and join us as we continue to execute well and take advantage of the amazing strategic opportunities and initiatives in front of us. Thank you, all, very much.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program.

Copyright © 2001-2024 FactSet CallStreet, LLC

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2024 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.